

UNLOCKING FINANCE TO DRIVE A SUSTAINABLE FOREST SECTOR IN VIETNAM



Client: IKI BMUB, 2022



Sector: Forestry



Services: Sustainable Financing, Investment

In Vietnam, access to finance has been limited for Small and Medium Enterprises (SMEs) in the forest sector, particularly those in the early stages of their growth. The team undertook an assessment of the banking sector in Vietnam to provide recommendations on stimulating access to finance for SMEs and smallholder farmers in the forest sector.

Key recommendations

1. Support sustainable and diverse sources of capital; the current reliance on central government and international donor funding will not generate the required capital in the future. There is the need for diverse sources of capital.
2. Multilateral Development Banks (MDBs) need to further support local financial institutions. For example, through the provision of capital and the establishment of guarantee mechanisms that will take first losses resulting from repayment delays or credit default.
3. Improve regulations on collateral requirements for the SME segment. Specific measures include expanding the credit policy to support enterprises without land titles; providing businesses further guidance on unsecured lending and simplifying access requirements.
4. Provide targeted support measures and a mix of financial products for poorer households. Loan products could include postponing repayment of the principal under certain circumstances and reducing outstanding loan amounts in the case of natural disasters. Lending risks can also be mitigated by organising loan recipients into groups.
5. Stimulate early-stage equity investment through blended finance facilities. A Private Sector Financing window that provides equity and guarantee products would offer the right type of financial products for early-stage and smaller companies.
6. Increasing the role of alternative non-bank sources of finance. One option described is supply chain financing. IKEA, for example, is providing access to capital for forestry producers via one of its suppliers. This and other non-banking lending products need to be further developed.